KARVE ENERGY INC

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED

MARCH 31, 2017 AND MARCH 31, 2016

May 10, 2017

LETTER TO OUR SHAREHOLDERS

Dear Shareholder:

We are pleased to update you on Karve's progress since our March 29, 2017 letter to shareholders.

Since the last update in late March, we have been busy working through breakup completing the five (5.0 net) horizontal wells that were previously drilled but uncompleted. With these additions, Karve now has a total of 24 (23.9 net) horizontal wells on production. Our Q1 production averaged 1,244 boe per day and with the recent additions now all on production, we are pleased to report that current production is over 2,100 boe per day (over 90% oil and NGLs). As you will recall, post closing of our initial acquisition in June 2016, Karve started with approximately 450 boe per day of production (~75% liquids).

After a moderate spring break-up, we are back in the field preparing to resume our drilling program in early June. Should commodity prices stabilize above US$45.00 WTI, our drilling plan will consist of a total of 50 (49.9 net) horizontal wells for 2017. Having already drilled, completed and tied in 14 of these horizontal wells in Q1 2017, we plan to drill an additional 36 (36.0 net) horizontal wells before the end of the year with all wells expected to be on production. Capital for 2017 is forecast to be approximately $50.0 million with $11.9 million spent on drilling, completion, pipeline and facilities in the first quarter of 2017. In addition to drilling 36 more wells, remaining 2017 capital expenditures will include a component of facility upgrades, waterflood expansion, pipeline construction and asset retirement obligations.

We are also pleased to report that our operating expenses were $18.66 per boe in the first quarter of 2017, well below our goal of less than $20.00 per boe and initial operating expenses of $36.14 per boe when we closed the Viking acquisition. We expect to see further reductions in operating expense go forward on a per boe basis as we continue to optimize the area and grow production.

We will hold our Annual General Meeting on Wednesday May 10, 2017 at 2:00PM at our offices at 1700, 205 5 AVE SW (Bow Valley II), Calgary Alberta. After the formal meeting, we will present a corporate update to those in attendance. If you are unable to attend the Annual General Meeting, we will post the corporate presentation to our website.

You will find enclosed the Karve Energy Inc. unaudited interim consolidated financial statements and MD&A for the three months ended March 31, 2017. These financial statements have been prepared in accordance with International Financial Reporting Standards. If you would like to be added to our email distribution list to receive financial statements and MD&A by email, please send your request to info@karveenergy.com.

We look forward to reporting our progress to you and thank all of our shareholders for their ongoing support.

On behalf of the Board of Directors,

Signed "Bob Chaisson"

Bob Chaisson
Chief Executive Officer
Karve Energy Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is a review of Karve Energy Inc.'s ("Karve" or the "Company") results and management's analysis of its financial performance for the period from January 1, 2017 to March 31, 2017 ("three months ended March 31, 2017"). It is dated May 10, 2017 and should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2017 and the audited financial statements for the year ended December 31, 2016. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The MD&A contains non-generally accepted accounting principles ("non-GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Karve's disclosure under "Non-GAAP Measurements" and "Forward-Looking Information and Statements" included at the end of this MD&A. All amounts are in Canadian dollars unless otherwise noted.

DESCRIPTION OF THE COMPANY

Karve is a growth-oriented, private oil and natural gas company whose principal business activities are the acquisition, exploration and development of oil and natural gas properties in Western Canada.

The Company was incorporated under the laws of the Province of Alberta on January 30, 2014, under the name "1799380 Alberta Ltd.". On June 16, 2014, the Company changed its name to "Bruin Oil & Gas Inc." ("Bruin") and on September 15, 2016, the Company changed its name to "Karve Energy Inc.". The consolidated financial information of the Company is comprised of Karve and its wholly owned subsidiary "DTC Energy Inc.".

On June 15, 2016, a new management team (the "Karve management team") replaced the previous management team (the "previous Bruin management team"). The Karve management team organized (i) a recapitalization of the Company through a series of private placements; (ii) the appointment of a new Board of Directors; and (iii) the acquisition of an oil-weighted asset base in the Alberta Viking formation.

OPERATIONAL AND FINANCIAL SUMMARY

The Company had producing oil and gas properties which were located in the Fiske area of Saskatchewan for the 15 day period from January 1, 2016 to January 15, 2016, when the Fiske producing property disposition closed (the "Fiske Producing Property Disposition"). Subsequent to the Fiske Producing Property Disposition, there was no oil and gas production until June 15, 2016 when the Company closed an acquisition of oil and gas properties located in the Alberta Viking formation (the "Viking Acquisition"). Comparative sales volumes and operating results for the three months ended March 31, 2016 include the 15 day production period from January 1, 2016 to January 15, 2016.

FINANCIAL *(Canadian $000, except per share and per boe amounts)*	For the three months ended Mar. 31, 2017	For the three months ended Mar. 31, 2016
Net loss from continuing operations	(602)	(606)
Per basic and diluted shares	(0.01)	(0.02)
Net income from discontinued operations	-	18
Per basic and diluted shares	-	-
Funds flow from (used for) operations (1)	3,080	(368)
Per basic and diluted shares (1)	0.05	(0.01)
Cash flow from (used for) continuing operations	1,135	(339)
Per basic and diluted shares	0.02	(0.01)
Capital expenditures	12,378	-
Dispositions	(451)	-
Total net capital expenditures	11,927	-
Net working capital (including derivative assets) (1)	14,628	21,130
Net working capital (excluding derivative assets) (1)	14,422	21,130
Total assets	79,216	21,542
Shares outstanding, weighted average (000s)	64,753	25,789
OPERATIONAL		
Sales volumes		
Oil (bbl/d)	1,114	10
NGLs (bbl/d)	6	-
Natural gas (mcf/d)	744	-
Total (boe/d)	**1,244**	**10**

(1) Non-GAAP measure, see page 15 for details.

($000s)	Three months ended Mar. 31, 2017	Mar. 31, 2016
Average sales prices (excludes hedging gains and losses)		
Oil ($/bbl)	58.85	33.48
NGLs ($/bbl)	60.96	-
Natural gas ($/mcf)	3.05	-
Boe basis ($/boe)	**54.82**	**33.48**
Field netback ($/boe)		
Sales price	54.82	33.48
Royalties	(3.23)	(2.16)
Operating expense	(18.66)	(11.88)
Transportation expense	(3.07)	-
Field netback (1)	**29.86**	**19.44**

(1) Non-GAAP measure, see page 15 for details.

SALES VOLUMES

Sales volumes averaged 1,244 boe/d during the three months ended March 31, 2017 compared to 10 boe/d for the three months ended March 31, 2016. The increase in sales volumes is due to the three months ended March 31, 2017 including production from the Viking acquisition which closed on June 15, 2016 whereas the comparative period includes the results from the Fiske producing property which was disposed of January 15, 2016. The increase in production from the Viking property since acquisition date (459 boe/d at acquisition) is due to bringing 24 horizontal wells on production, consolidation of non-operated working interest partners in the property, and field optimization activities. Refer to page 11 for supplementary quarterly information.

All current production is from the Viking property acquired on June 15, 2016, which is currently producing approximately 2,100 boe/d for the week previous to the date of this MD&A.

AVERAGE SALES VOLUMES	For the three months ended Mar. 31, 2017	For the three months ended Mar. 31, 2016
Oil (bbl/d)	1,114	10
Natural gas liquids (bbl/d)	6	-
Natural gas (mcf/d)	744	-
TOTAL SALES VOLUMES (boe/d)	**1,244**	**10**

SALES PRICES AND REVENUE

For the three months ended March 31, 2017, the Company generated revenue of $6.1 million (three months ended March 31, 2016 - $31,000) on average sales volumes of 1,244 boe/d. Revenue is recorded before transportation expenses. The average sales price per boe for the three months ended March 31, 2017 was $54.82 compared to $33.48 for the three months ended March 31, 2016. The increase relates to higher benchmark commodity pricing in the current period. Natural gas produced from the Viking property is typically conserved whereas gas produced in the Fiske producing property of Saskatchewan was flared in the comparative period. The Company sells its oil production at current market prices discounted for Alberta delivery points and adjusted for quality based on the density of the Company's sweet, light crude oil which averages 32° API. Refer to page 11 for supplementary quarterly information.

KARVE AVERAGE REALIZED PRICE (1)	For the three months ended Mar. 31, 2017	For the three months ended Mar. 31, 2016
Revenue ($000s) (2)	6,136	31
Oil ($/bbl)	58.85	33.48
NGLs ($/bbl)	60.96	-
Natural gas ($/mcf)	3.05	-
Karve realized price ($/boe)	**54.82**	**33.48**

(1) Excludes hedging gains and losses.

(2) Revenue includes amounts presented as income from discontinued operations in the consolidated statement of net loss and comprehensive loss.

AVERAGE BENCHMARK PRICES	For the three months ended Mar. 31, 2017	For the three months ended Mar. 31, 2016
Crude oil - WTI ($US/bbl)	51.90	33.45
Crude oil - Canadian light sweet ($CDN/bbl)	64.74	41.22
Natural gas - AECO-C spot ($CDN/mcf)	2.69	1.83
Exchange Rate - ($US/$CAD)	0.76	0.73

DERIVATIVE CONTRACTS

It is the Company's policy to hedge a portion of its crude oil sales through the use of financial derivative contracts. The Company does not apply hedge accounting to any of these contracts. At March 31, 2017, the Company had the following crude oil commodity contract in place.

Term	Contract	Volume (Bbl/d)	Fixed Price ($CAD/Bbl)(1)	Current Net Asset ($000s)	Long Term Net Asset ($000s)
Apr. 2017 - Sep. 2017	Fixed price swap	300	72.25	206	-
DERIVATIVE ASSETS				**206**	-

(1) Nymex WTI monthly average in $CAD.

On March 3, 2017, the Company entered into a sell side crude oil commodity contract with a Canadian chartered bank. The effective date of the contract is April 1, 2017. The contract is for 300 barrels per day of oil at an average Nymex West Texas Intermediate ("WTI") fixed price of $72.25 CAD per barrel. This contract terminates September 30, 2017.

The components of the gain on the financial derivative contract is as follows:

($000s)	For the three months ended Mar. 31, 2017	For the three months ended Mar. 31, 2016
Realized gain on financial derivative contracts	-	-
Unrealized gain on financial derivative contracts	206	-
GAIN ON FINANCIAL DERIVATIVE CONTRACTS	**206**	-

At March 31, 2017, the fair value of the financial derivative contract was a current asset position of $206,000 resulting in an unrealized gain of $206,000. The fair value, or mark-to-market value, of this contract is based on the estimated amount that would have been received or paid to settle the contract as at March 31, 2017 and may be different from what will eventually be realized. The unrealized gain on the crude oil commodity contract for the three months ended March 31, 2017 is the result of lower future WTI prices as at March 31, 2017 as compared to the date when the contract was entered into. Refer to page 11 for supplementary quarterly information.

Assuming all other variables remain constant, a $5.00 USD increase in WTI would result in a $348,000 decrease in the unrealized gain and a $5.00 USD decrease in WTI would result in a $348,000 increase in the unrealized gain.

The unrealized gain on May 9, 2017 (day prior to financial statement release) was $378,000.

ROYALTIES

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the three months ended March 31, 2017 was $362,000 ($3.23 per boe) compared to $2,000 ($2.16 per boe) for the three months ended March 31, 2016. For the three months ended March 31, 2017, the Company's royalty rate was 5.9% of revenues (three months ended March 31, 2016 – 6.5%), a decrease of 9% due to different royalty rates between the Alberta based assets at Consort and Hamilton Lake and the Saskatchewan based assets at the Fiske producing property which had higher gross overriding royalty rates. Royalty rates are expected to remain low due to the high percentage of Crown lands and the Alberta Governments Crown royalty incentive program. Refer to page 11 for supplementary quarterly information.

($000s, except per boe amounts)	For the three months ended Mar. 31, 2017	For the three months ended Mar. 31, 2016
Royalty expense (1)	362	2
Royalty expense as a % of revenue	5.9%	6.5%
Per boe ($)	3.23	2.16

(1) Royalty expense includes amounts presented as income from discontinued operations in the consolidated statement of net loss and comprehensive loss.

OPERATING EXPENSE

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process and in-field trucking of production. Operating expenses were $2.1 million ($18.66 per boe) during the three months ended March 31, 2017 and $11,000 ($11.88 per boe) for the three months ended March 31, 2016. Operating expenses per boe increased during the three months ended March 31, 2017 due to the Viking Acquisition which closed on June 15, 2016. Post closing of the acquisition, the Company has been successful in transitioning the initial high operating cost assets of $36.14 per boe to a lower operating cost base. In the future, as more horizontal wells come on production, the operating expense per boe is expected to further decrease due to the fixed nature of a considerable portion of the expenses being allocated over increasing production volumes. Refer to page 11 for supplementary quarterly information.

($000s, except per boe amounts)	For the three months ended Mar. 31, 2017	For the three months ended Mar. 31, 2016
Operating expense [(1)]	2,089	11
Per boe ($)	18.66	11.88

(1) Operating expense includes amounts presented as income from discontinued operations in the consolidated statement of net loss and comprehensive loss.

TRANSPORTATION EXPENSE

Transportation expense includes costs paid to third parties for transporting clean oil, sales gas, and associated liquids to the pipeline or processing plant point of sale. Transportation expenses were $344,000 ($3.07 per boe) during the three months ended March 31, 2017 and nil for the three months ended March 31, 2016. The increase in transportation expense in the current period is due to clean oil trucking and firm service gas transportation costs incurred on the Viking property to transport production to sales points, whereas in the comparative period oil emulsion was sold at the battery. The comparative period costs are presented as “operating expenses”. Refer to page 11 for supplementary quarterly information.

($000s, except per boe amounts)	For the three months ended Mar. 31, 2017	For the three months ended Mar. 31, 2016
Transportation expense	344	-
Per boe ($)	3.07	-

FIELD NETBACK

The components of field netbacks are summarized in the following table:

	For the three months ended March 31, 2017		For the three months ended March 31, 2016	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Revenue	6,136	54.82	31	33.48
Royalties	(362)	(3.23)	(2)	(2.16)
Operating expense	(2,089)	(18.66)	(11)	(11.88)
Transportation expense	(344)	(3.07)	-	-
FIELD NETBACK ($) [(1)]	**3,341**	**29.86**	**18**	**19.44**

(1) Non-GAAP measure, see page 15 for details.

GENERAL AND ADMINISTRATION EXPENSE (“G&A”)

The following are the main components of G&A for the three months ended March 31, 2017 and March 31, 2016:

($000s, except per boe amounts)	For the three months ended Mar. 31, 2017	For the three months ended Mar. 31, 2016
Staff and consulting costs	435	204
Professional fees	33	82
Office and rent costs	163	94
Other	63	34
General and administration expense (Gross)	694	414
Capitalized G&A and overhead recovery	(308)	-
General and administration expense (Net)	386	414
Per boe ($)	3.45	N/A

General and administrative expenses (net) for the three months ended March 31, 2017 were $386,000 ($3.45 per boe) and $414,000 for the three months ended March 31, 2016. The decrease in G&A per boe relates to increased sales volumes in the current period and higher capitalized G&A and overhead recoveries.

FINANCIAL INCOME

($000s, except per boe amounts)	For the three months ended Mar. 31, 2017	For the three months ended Mar. 31, 2016
Financial income	60	46
Per boe ($)	0.54	49.68

Financial income relates to interest income earned on bank deposits and short term investments. Interest income increased to $60,000 for the three months ended March 31, 2017 compared to $46,000 due to larger cash balances held on deposit and higher interest rates earned during the three months ended March 31, 2017 compared to March 31, 2016. During the three months ended March 31, 2017, no amounts were drawn on the Company’s operating demand facility and therefore the Company did not pay interest expense related to this facility.

SHARE-BASED COMPENSATION EXPENSE (“SBC”)

($000s, except per boe amounts)	For the three months ended Mar. 31, 2017	For the three months ended Mar. 31, 2016
Share-based compensation - options	590	186
Share-based compensation - performance warrants	775	51
Share based compensation expense	1,365	237
Per boe ($)	12.19	255.94

Share-based compensation (“SBC”) is an estimate of the fair value of the share options and performance warrants granted by the Company using the Black-Scholes valuation methodology at the grant date. The Black-Scholes pricing model requires the Company to make assumptions including share volatility, a risk-free rate, and expected life of the options and performance warrants.

All issued and outstanding stock options and performance warrants to the previous Bruin management team were cancelled on June 15, 2016, and a new stock option and performance warrant plan has been put in place for the Karve management team.

During the three months ended March 31, 2017, 110,000 stock options were approved for issuance by the Board of Directors at a weighted average exercise price of $1.61 per option (year ended December 31, 2016 – 6,365,000). The weighted average fair value of options granted during the three months ended March 31, 2017 is $0.78 per option.

SBC expense for the three months ended March 31, 2017, was $1.4 million (three months ended March 31, 2016 - $237,000) using the graded vesting method.

As at March 31, 2017, 6,475,000 stock options and 16,125,000 performance warrants were outstanding. The weighted average exercise price and fair value of the stock options outstanding was $0.92 per option and $0.57 per option respectively. The weighted average exercise price and fair value of the performance warrants outstanding was $1.90 and $0.40 respectively. There were no stock options or performance warrants exercised during the three months ended March 31, 2017. At March 31, 2017 150,000 stock options and 300,000 performance warrants were exercisable.

DEPLETION, DEPRECIATION AND AMORTIZATION

Depletion, depreciation and amortization ("DD&A") are associated with production assets in the Consort and Hamilton Lake areas of Alberta and also include the depreciation and amortization of corporate assets such as computer equipment. The net carrying value of production assets is depleted using the unit-of-production method by determining the ratio of production in the period to the related proved plus probable reserves and estimated future development costs necessary to bring those reserves into production.

During the three months ended March 31, 2017 depletion expense was $2.0 million (March 31, 2016, $1,000) due to increased production, net carrying value, and future development costs from the Consort and Hamilton Lake assets during the three months ended March 31, 2017.

In the comparative period ended March 31, 2016, all production assets in the Fiske area of Saskatchewan were classified as "assets held for sale" until January 15, 2016 when the disposition closed. Assets held for sale are not subject to depletion, therefore no depletion expense was recognized related to these assets during the three months ended March 31, 2016.

($000s, except per boe amounts)	For the three months ended Mar. 31, 2017	For the three months ended Mar. 31, 2016
Depletion [1]	2,037	-
Depreciation and amortization	3	1
Total DD&A ($)	2,040	1
Per boe ($)	18.22	1.08

(1) Depletion expense includes amounts presented as income from discontinued operations in the consolidated statement of net loss and comprehensive loss.

CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the three months ended March 31, 2017 consisted of the following. There were no capital expenditures during the comparative three months ended March 31, 2016.

($000s)	For the three months ended Mar. 31, 2017	For the three months ended Mar. 31, 2016
Dispositions	(451)	-
Drilling	5,248	-
Completions	4,151	-
Facilities and well equipment	2,899	-
Land acquisitions	72	-
Office equipment	8	-
TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS ($000s)	**11,927**	**-**

During the three months ended March 31, 2017, the Company drilled 14 (13.9 net) wells, 9 of which were completed and placed on stream prior to March 31, 2017. The remaining 5 drilled horizontal wells but not completed were fracture stimulated and placed on stream in April 2017.

ACQUISITION OF OIL AND GAS ASSETS

On June 15, 2016, the Company closed an acquisition of oil and gas assets located in the Alberta Viking formation for a total purchase price of $22.7 million, subject to customary closing adjustments. The assets acquired consisted of producing properties, reserves, facilities, and undeveloped land. The effective date of the acquisition was April 1, 2016.

As a result of the Viking Acquisition, the Company was also required to pay deposits associated with the Alberta Energy Regulators ("AER") licensee liability rating program. The initial deposit of $13.7 million was made on July 25, 2016 and was reduced by $4.7 million to $9.0 million on September 13, 2016. The deposits are refundable once the Company's operated licences deemed assets are greater than their deemed liabilities based on parameters determined by the AER. As at March 31, 2017 a deposit of $9.0 million is outstanding relating to the AER licensee liability rating program.

On May 1, 2017, the irrevocable letter of credit in favor of the Alberta Energy Regular was reduced from $9.0 million to $4.2 million as a result of an increase in the Company's licensee liability ratio along with a reduction in deposits and an increase in cash and cash equivalents of $4.8 million. The Company expects the remaining $4.2 million security deposit to be returned to the Company in 2017.

The following table summarizes the aggregate fair value of net assets acquired and the allocation of the purchase price:

($000s)	
Exploration and evaluation assets	7,889
Property, plant and equipment	20,692
Decommissioning liabilities	(5,872)
FAIR VALUE OF NET ASSETS ACQUIRED	**22,709**
CONSIDERATION	
Cash	22,709
TOTAL PURCHASE PRICE	**22,709**

Other Miscellaneous Acquisitions

Throughout the year ended December 31, 2016, the Company acquired various working interests, land, light oil producing properties, and reserves. The following table summarizes the aggregate fair value of net assets acquired and the allocation of the purchase price:

($000s)	
Exploration and evaluation assets	391
Property, plant and equipment	847
Decommissioning liabilities	(212)
FAIR VALUE OF NET ASSETS ACQUIRED	**1,026**
CONSIDERATION	
Cash	876
Shares	150
TOTAL PURCHASE PRICE	**1,026**

PROPERTY DISPOSITION AND DISCONTINUED OPERATIONS

On January 15, 2016, the Company completed a disposition of all its producing oil and natural gas properties located in the Fiske cash generating unit ("CGU") for proceeds of $2.5 million after closing adjustments. The carrying value of assets and associated decommissioning liabilities disposed during the previous year ended December 31, 2016 are summarized below.

($000s)	
Property, plant and equipment	2,679
Decommissioning liabilities	(193)
CARRYING VALUE OF NET ASSETS DISPOSED	**2,486**
Cash proceeds, after closing adjustments	2,486
GAIN (LOSS) ON SALE OF ASSETS	-

As a result of the property disposition, during the three months ended March 31, 2016, the Company only had oil and gas production operations in the Fiske CGU for the 15 day period January 1, 2016 to January 15, 2016. The consolidated statement of net loss and comprehensive loss has been presented to show the discontinued operation separately from continuing operations.

During the three months ended March 31, 2017, the remaining undeveloped land in the Fiske CGU was disposed of for $451,000. There was no gain or loss in this sale. As a result of this disposal the Company no longer has operations in Saskatchewan.

DECOMMISSIONING LIABILITY

At March 31, 2017, the Company recorded a decommissioning liability of $7.4 million for the future abandonment and reclamation of Karve's properties (December 31, 2016 – $7.2 million). The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells and reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the discounted total future liability. The Company estimates that its total undiscounted amount of cash flow required to settle its decommissioning liability is approximately $56.6 million, which will be incurred over the remaining life of the assets with the majority of costs to be incurred between 2037 and 2057. The estimated future cash flows have been discounted using a credit adjusted rate of approximately 8 % percent and an inflation rate of 2 %. At March 31, 2017, a 1 % decrease in the discount rate used would create approximately a $1.9 million increase in the decommissioning liability, and a 1 % increase in the discount rate used would create approximately a $1.5 million decrease in the decommissioning liability.

REVOLVING OPERATING DEMAND FACILITY

At March 31, 2017, the Company had a $1.0 million revolving operating demand facility (the "facility") with a Canadian chartered bank. As at March 31, 2017, nil was drawn on the facility. The facility bears interest at prime plus 1.00% per annum and has a standby fee of 0.50% per annum on the undrawn portion of the facility. The facility requires that the Company maintain a working capital ratio of not less than 1 : 1 with customary adjustments for undrawn amounts on the facility and the mark-to-market impact of financial derivative contracts.

SHARE CAPITAL

($000s except for share amounts)	Number	Amount ($)
Common Shares		
Balance at December 31, 2015	25,789,280	32,649
Issued for cash	38,963,324	40,530
Share issue costs, net of deferred tax ($447,000)	-	(173)
BALANCE AT DECEMBER 31, 2016 AND MARCH 31, 2017	**64,752,604**	**73,006**

On June 14, 2016, the remaining put-call option was exercised for $7.0 million ($6.6 million net of share issuance costs) resulting in the issuance of 4,375,000 common shares and the cancellation of 4,375,000 special voting preferred shares. In connection with the put-call option exercise, the Company incurred $385,000 of share issuance costs ($281,000 net of deferred tax).

In June 2016, the Company completed a series of private placement financings, issuing 28,058,824 common shares for gross proceeds of $27.0 million less $216,000 in share issuance costs ($158,000 net of deferred tax). The financings were comprised of:

(i) 7,058,824 common shares issued to certain members of the Karve management team at $0.85 per share for gross proceeds of $6.0 million.

(ii) 21,000,000 common shares issued to other investors at $1.00 per share for gross proceeds of $21.0 million.

In July and August 2016, the Company completed a series of private placement financings, issuing 6,239,500 common shares at a price of $1.00 per share for gross proceeds of $6.2 million less $19,000 in share issuance costs ($14,000 net of deferred tax).

In August 2016, the Company issued 43,000 common shares at $1.00 per common share to a related party.

In August 2016, the Company issued a total of 247,000 common shares at a price of $1.00 per share as purchase consideration for asset acquisitions and consulting services provided.

Concurrent to the equity issuances (not including the pull-call option or equity issued as consideration for asset acquisitions and consulting services) that closed during the previous year ended December 31, 2016, 34,298,324 share purchase warrants were issued. Each share purchase warrant entitles the holder to purchase one common share of the Company for a nominal amount in the event of a loss incurred by the Company in excess of $450,000 which relates to a condition that existed prior to the June 15, 2016 recapitalization date. The share purchase warrants expire on June 15, 2017.

SUPPLEMENTARY QUARTERLY INFORMATION

($000s)	For the quarter ended Mar. 31, 2017	For the quarter ended Dec. 31, 2016	For the quarter ended Sept. 30, 2016
Petroleum and natural gas sales	6,136	2,601	1,756
Funds flow from (used for) operations [(1)]	3,080	(340)	(652)
AVERAGE SALES VOLUMES			
Oil (bbl/d)	1,114	457	341
Natural gas liquids (bbl/d)	6	7	5
Natural gas (Mcf/d)	744	792	747
TOTAL PRODUCTION (BOE/d)	**1,244**	**596**	**470**
AVERAGE BENCHMARK PRICES			
Crude oil - WTI ($US/bbl)	51.90	49.29	44.94
Crude oil - Canadian light sweet ($CDN/bbl)	64.74	60.76	54.19
Natural gas - AECO-C spot ($CDN/mcf)	2.69	3.11	2.36
Exchange Rate - ($US/$CAD)	0.76	0.75	0.77
FIELD NETBACK ($/BOE)			
Revenue	54.82	47.45	40.59
Royalties	(3.23)	(2.80)	(2.47)
Operating expense	(18.66)	(29.74)	(38.14)
Transportation expense	(3.07)	(2.34)	(2.03)
FIELD NETBACK ($/BOE) [(1)]	**29.86**	**12.57**	**(2.05)**
General and administration	(3.45)	(23.43)	(14.12)
Financing	0.54	1.81	1.50
CASHFLOW NETBACK ($/BOE)	**26.95**	**(9.05)**	**(14.67)**

(1) Non-GAAP measure, see page 15 for details.

Over the last two quarters, the Company's daily production has increased due to bringing 10 wells on stream during the quarter ended December 31, 2016, and an additional 9 wells on stream during the quarter ended March 31, 2017. Subsequent to the quarter ended March 31, 2017, the Company brought another 5 wells on stream. Due to the fixed nature of the operating costs, operating expense continues to decrease as the Company has been successful in transitioning the high operating cost assets to a lower operating cost base. Transportation expense increased during the three months ended March 31, 2017 due to the Company trucking oil longer distances to new sales markets in order to obtain higher oil pricing.

NET INCOME SUMMARY

($000s, except per boe amounts)	For the three months ended March 31, 2017 $	$/boe	For the three months ended March 31, 2016 $	$/boe
Petroleum and natural gas sales	6,136	54.82	31	33.48
Royalties	(362)	(3.23)	(2)	(2.16)
NET REVENUE	**5,774**	**51.59**	**29**	**31.32**
Unrealized gain on financial derivative contracts	206	1.84	-	-
Realized gain on financial derivative contracts	-	-	-	-
Interest income	60	0.54	46	49.68
TOTAL REVENUE AND OTHER INCOME	**6,040**	**53.97**	**75**	**81.00**
Operating	2,089	18.66	11	11.88
Transportation	344	3.07	-	-
General and administration	386	3.45	414	N/A
Depletion, depreciation and amortization	2,040	18.22	1	1.08
Accretion	133	1.19	-	-
Share-based compensation	1,365	12.19	237	255.94
LOSS FROM OPERATIONS BEFORE TAXES	**(317)**	**(2.81)**	**(588)**	**(187.89)**
Deferred income tax expense	285	2.55	-	-
NET LOSS AND COMPREHENSIVE LOSS	**(602)**	**(5.36)**	**(588)**	**(187.89)**

(1) For all financial statement line items above, amounts presented as income from discontinued operations in the consolidated statement of net loss and comprehensive loss have been presented in their original revenue or expense line item for comparison purposes within this MD&A.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at March 31, 2017 are as follows:

	2017	**2018**	**2019**	**2020**	**2021**	**Therafter**	**Total**
Operating leases	180,579	329,432	497,523	596,984	164,145	-	1,768,663
Pipeline transportation	42,264	11,689	-	-	-	-	53,953
Total annual commitments	**222,843**	**341,121**	**497,523**	**596,984**	**164,145**	**-**	**1,822,616**

Karve has a five year office lease with an option to both Karve and the lessor to terminate the lease at any time after July 19, 2019. The lessor has the right to terminate the office lease with 6 months written notice at any point after July 30, 2019. There is no compensation to Karve should Karve terminate the lease after this date.

Karve has the right to terminate the lease if there is a sale of Karve. If Karve terminates the lease, there is a $600,000 penalty. Should Karve terminate the lease prior to July 30, 2019, Karve is required to pay lease payments up to July 30, 2019 with no payment required for lease payments after July 30, 2019.

The “Deferred lease liability” of $173,000 presented on the consolidated statement of financial position represents the difference between cash lease payments and accounting operating lease payments which are recognized on a straight-line basis over the life of the lease. In the early years of the lease, the cash outflow is less than the accounting operating lease payment which gives rise to the deferred lease liability.

RELATED PARTY DISCLOSURES

The Company incurred a total of $94,000 (three months ended March 31, 2016 -$25,000) for legal services provided by a law firm where the Corporate Secretary is a partner of this law firm. As at March 31, 2017, $17,000 in fees for these legal services are included in accounts payable (March 31, 2016 - nil). In the comparative period ended March 31, 2016, a previous Director of the Company, until June 15, 2016, was a Director of a company which received office rental payments of $42,000 from Karve.

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at March 31, 2017, there were 64,752,604 common shares outstanding (December 31, 2016 - 64,752,604).

As at May 10, 2017, the date of this MD&A, there were 64,752,604 common shares, 6,475,000 stock options and 16,125,000 performance warrants outstanding.

LIQUIDITY

The Company relies on operating cash flows, debt, and equity issuances to fund its capital requirements and provide liquidity. From time to time, the Company expects to access capital markets to meets its capital programs. Future liquidity depends primarily on cash flow generated from operations and the ability to access equity markets.

SUBSEQUENT EVENTS

On May 1, 2017, the irrevocable letter of credit in favor of the Alberta Energy Regular was reduced from $9.0 million to $4.2 million as a result of an increase in the Company's licensee liability ratio along with a reduction in deposits and an increase in cash and cash equivalents of $4.8 million. The Company expects the remaining $4.2 million security deposit to be returned to the Company in 2017.

OFF BALANCE SHEET ARRANGEMENTS

Karve has certain lease agreements that were entered into in the normal course of operations, all of which are discussed in the "Contractual Obligations and Commitments" section above.

All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the consolidated statement of financial position as at March 31, 2017.

RECENT DEVELOPMENTS

Alberta Modernized Royalty Framework

On January 1, 2017, the Alberta Modernized Royalty Framework (the "MRF") came into effect. The MRF will apply to wells drilled on or after January 1, 2017. Existing wells will continue to be governed by current royalty system for ten years, after which time, the MRF will apply. The MRF will apply different royalty rates in three stages of the life cycle of a well, Pre-C*, Post-C*, and Post-C* Mature. Note that C* is the revised Drilling and Completion Cost Allowance which is based on industry average drilling and completion costs to be used as a proxy for well costs. Initially, Karve will pay a flat 5% royalty on production until total revenue from the well equals C*. Once the C* threshold has been met the royalty rate will fluctuate with market pricing to a maximum of 40% on oil production and 36% on natural gas production, until monthly production from the well is below 194 m3e for oil wells or 345.5 e3m3e for gas wells (the "Maturity Threshold"), where a quantity adjustment is introduced tying the royalty rate to reduced production levels.

The full extent of the impact of the MRF on Karve's future financial performance is still being evaluated, however the Company does not expect royalty rates to change significantly from current royalty rates of 5.9% of revenue.

Alberta Carbon Levy

An initial economy-wide levy of $20 per tonne was implemented on January 1, 2017, increasing to $30 per tonne in January 2018. All fuel consumption, including gasoline and natural gas, will be subject to the levy, with certain exemptions.

There are certain exemptions to the carbon levy. Until 2023, fuels consumed, flared or vented in a production process by conventional oil and gas producers will be exempt from the carbon levy. As activities integral to oil and gas production processes are exempt until 2023, Karve expects our operations to have minimal direct carbon levy exposure until 2023. Karve has applied for and obtained its Alberta Carbon Levy Exemption Certificate for various fuel types used in its' production process. Currently, the most significant impact of the carbon levy is increased oil trucking costs as vendors pass the carbon levy on to Karve through increased trucking rates.

Extractive Sector Transparency Measures Act

The Extractive Sector Transparency Measures Act ("ESTMA") came into effect June 1, 2015 and introduces new reporting and transparency obligations for Canadian oil and gas producers. The Company is monitoring whether it will be required to report under ESTMA based on meeting the $20 million asset and $40 million revenue criteria for the 2017 fiscal period.

FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain information in this MD&A is forward-looking and is subject to important risks and uncertainties. The results or events predicted in this information may differ materially from actual results or events. Factors which could cause actual results or events to differ materially from current expectations include the ability of the Company to implement its strategic initiatives, the availability and price of energy commodities, government and regulatory decisions, plant availability, competitive factors in the oil and gas industry and prevailing economic conditions in the regions the Company operates. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "project", "predict", "potential", "could", "might", "should" and other similar expressions. The Company believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct. These forward-looking statements are as of the date of this MD&A. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required pursuant to applicable securities laws.

Forward-looking statements concerning expected operating and economic conditions are based upon prior year results as well as assumptions that increases in market activity and growth will be consistent with industry activity in Canada. Forward-looking statements concerning the availability of funding for future operations are based upon the assumption that the sources of funding which the Company has relied upon in the past will continue to be available to the Company on terms favorable to the Company and that future economic and operating conditions will not limit the Company's access to debt and equity markets. Forward-looking statements in respect of the costs anticipated being associated with the acquisition of oil and gas properties are based upon assumptions that future acquisition costs will not significantly increase from past acquisitions. Many of these factors, expectations and assumptions are based on management's knowledge and experience in the industry and on public disclosure of industry participants and analysts related to anticipated exploration and development programs, the effect of changes to regulatory, taxation and royalty regimes. The Company believes that the material factors, expectations and assumptions reflected in the forward-looking statements and information are reasonable; however, no assurances can be given that these factors, expectations and assumptions will prove to be correct.

Forward-looking statements involving significant risks and uncertainties should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in these forward-looking statements. The Company cannot assure investors that actual results will be consistent with the forward-looking statements and readers are cautioned not to place undue reliance on them.

The Company's actual results could differ materially from those anticipated in such forward-looking statements as a result of the risk factors set forth below and elsewhere in this document; general economic conditions in Canada; changes in the level of capital expenditures, volatility in market prices for oil and natural gas, risks inherent in the Company's ability to acquire any economic interest in certain oil and gas assets and then to generate sufficient cash flow from operations to meet its current and future obligations, the Company's ability to access external sources of debt and equity capital, changes in legislation and the regulatory environment, including uncertainties with respect to uncertainties in weather and temperature affecting the duration of the oilfield drilling activities, competition, sourcing, pricing and availability of oil field services, consumables, component parts, equipment, suppliers, facilities, and skilled management, technical and field personnel, liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations, credit risk to which the Company is exposed in the conduct of its business, and changes to the royalty regimes applicable to entities.

Although forward-looking statements contained in this MD&A are based upon what the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements in this MD&A are expressly qualified by this cautionary statement. Unless otherwise required by law, Karve does not intend, or assume any obligation, to update these forward-looking statements.

BARRELS OF OIL EQUIVALENT

The term referred to herein in respect of barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in this MD&A are derived from converting gas to oil in the ratio of six thousand cubic feet to one barrel of oil. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1; utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

NON-GAAP MEASUREMENTS

The MD&A contains the term funds flow from operations which should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS as an indicator of the Company's performance. The reconciliation between cash flow from operating activities and funds flow from operations can be found in the statement of cash flows in the annual financial statements and is presented before the change in non-cash operating working capital. The Company reconciles funds flow from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS, as follows:

($000s)	For the three months ended Mar. 31, 2017	For the three months ended Mar. 31, 2016
Cash flow from (used for) continuing operations	1,135	(339)
Change in non-cash working capital from operating activities	1,945	(29)
FUNDS FLOW FROM (USED FOR) OPERATIONS	**3,080**	**(368)**

The Company presents funds flow from operations per share whereby per share amounts are calculated consistent with the calculation of earnings per share. The MD&A contains other terms such as field netback and net working capital which is not a recognized measure under IFRS. Management believes these measures are useful supplemental information. Field netback is the amount of revenues received on a per unit of production basis after the royalties, operating costs, and transportation costs are deducted and used to assess profitability on a per boe basis. Net working capital represents current assets less current liabilities (excluding derivative assets) and is used to assess efficiency, liquidity and the general financial strength of the Company. Readers are cautioned however, that these measures should not be construed as an alternative to other terms such as current and long-term debt or net earnings in accordance with IFRS as measures of performance. The Company's method of calculating these measures may differ from other companies, and accordingly, such measures may not be comparable to measures used by other companies.

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[A] Denotes member of the Audit Committee.
[R] Denotes member of the Reserves Committee.
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